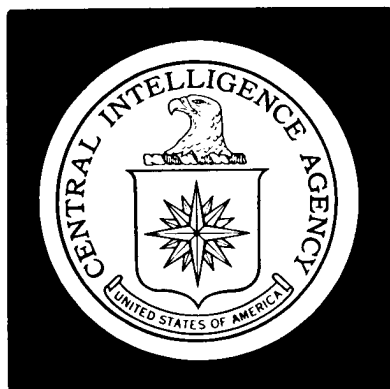


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Soviet And East European Petroleum Trade
With The Free World In 1970
And Prospects For 1971 And Beyond*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1971

INTELLIGENCE MEMORANDUM

Soviet And East European Petroleum Trade
With The Free World In 1970 And Prospects
For 1971 And Beyond

Introduction

1. Petroleum is the leading export commodity and primary source of hard currency earnings for the Soviet Union and an important export for Eastern Europe. Oil exports from Communist countries 1/ increased sharply through the first half of the 1960s. Such exports, however, have tended to level off since 1967. During the latter period, Communist imports of petroleum from the Free World, although still small, have grown rapidly. This memorandum summarizes the trade in both crude oil and refined products between the Communist countries and the Free World in 1970 and speculates on the probable level and direction of this oil trade in 1971 and beyond.

Discussion

Oil Trade in 1970

2. Communist exports of oil to the Free World increased in 1970, but the increase was more than offset by an increase in oil imports from the Free

1. References to Communist countries in the context of oil trade with the Free World refer to the USSR and the Communist countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

Note: This memorandum was prepared by the Office of Economic Research.

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World. Oil exports amounted to 53 million metric tons, some 2 million tons more than in 1969. Of the total, 26 million tons were crude oil and 27 million tons were petroleum products. The USSR provided 85% and Romania provided 7% of Communist petroleum exports. Communist imports from the Free World increased to 8 million tons, some 3-½ million tons more than in 1969. The USSR and Romania each obtained almost one-third of the total. Almost all of the Soviet and East European imports were in the form of crude oil -- 7.8 million tons. The chart depicts Communist oil trade with the Free World during 1965-70.

3. The total value of oil sales from the USSR and Eastern Europe to the Free World in 1970 was estimated to be \$720 million, compared with \$665 million in 1969. Of the 1970 total, about \$420 million represented hard currency earnings for the Communist countries. Communist imports of oil from the Free World came primarily from barter agreements with countries of the Middle East and required no hard currency expenditures on the part of the Communist countries.

Oil Exports

4. Western Europe received about 80% of Communist petroleum exports to the Free World, although these receipts constituted only 7% of Western Europe's supply. Three countries -- Italy, Finland, and West Germany -- received about half of total Communist petroleum exported to the Free World. Other leading importers of Soviet and East European petroleum included Sweden, France, Japan, Egypt, Austria, and Greece. Small quantities of petroleum products were also shipped to the United States and Canada. The Appendix shows the Free World destinations of oil exports from Communist countries in 1970.

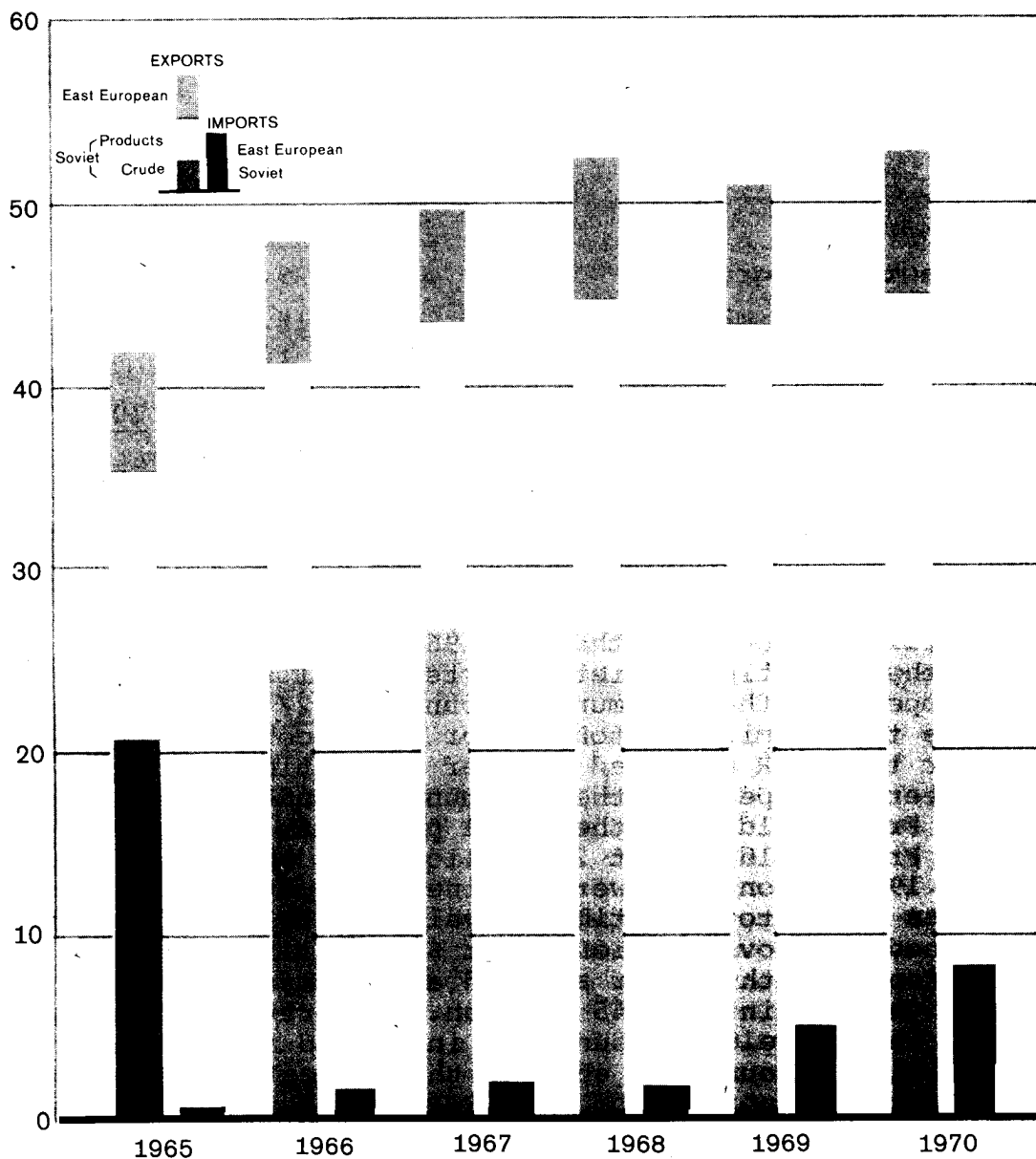
5. Deliveries in tankers made up 90% of Communist oil exports to the Free World. Slightly over half of those tanker deliveries were in Communist-flag ships. The Black Sea continued to serve as the most important point of origin, as 56% of all oil exports came from this area (see Table 1).

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Soviet and East European Petroleum Trade with the Free World

Million Metric Tons



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Table 1

Methods of Delivery and Ports of Origin
of Oil Exported by Communist Countries
to the Free World
1970

<u>Deliveries</u>	<u>Million Metric Tons</u>			
	<u>USSR</u>	<u>Eastern Europe</u>	<u>Total</u>	<u>Percent of Total</u>
By tanker	<u>42.6</u>	<u>4.8</u>	<u>47.4</u>	<u>90</u>
Black Sea ports	25.6	3.8	29.4	56
Baltic Sea ports	15.5	1.0	16.5	31
Far Eastern ports	1.5	--	1.5	3
By rail and barge	<u>2.3</u>	<u>3.0</u>	<u>5.3</u>	<u>10</u>
<i>Total</i>	<i>44.9</i>	<i>7.8</i>	<i>52.7</i>	<i>100</i>

Soviet Union

6. Soviet exports of oil to Free World countries in 1970 increased to about 45 million tons, almost 2 million tons more than in 1969 (see Table 2). At the same time Soviet exports of oil to Eastern Europe and other Communist countries ^{2/} increased by more than 2 million tons. For the second successive year the USSR exported greater quantities of oil to Eastern Europe and other Communist countries than to the Free World. Of the total petroleum delivered to the Free World, about 26 million tons were crude oil and 19 million tons were refined products. These exports had a total estimated value of \$610 million and earned the Soviet Union about \$365 million in hard currency, with barter and aid arrangements accounting for the remaining \$245 million. Exports to the developed and less developed countries increased about equally. Individual countries showing the largest increases in petroleum imports from the USSR were Egypt and Japan.

2. Other Communist countries include Cuba, Yugoslavia, North Korea, North Vietnam, Communist China, and Mongolia.

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Table 2

Soviet Oil Exports to the Free World a/

	Million Metric Tons					
<u>Importing Area</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Developed countries	<u>26.1</u>	<u>32.8</u>	<u>37.3</u>	<u>39.7</u>	<u>38.2</u>	<u>38.9</u>
Of which:						
Western Europe	22.2	28.7	33.9	36.9	35.9	35.8
Japan	3.9	4.1	3.3	2.8	2.2	2.9
Less developed countries	<u>9.4</u>	<u>8.6</u>	<u>6.3</u>	<u>5.0</u>	<u>5.0</u>	<u>6.0</u>
<i>Total</i>	<i>35.5</i>	<i>41.4</i>	<i>43.7</i>	<i>44.7</i>	<i>43.2</i>	<i>44.9</i>

a. Because of rounding, components may not add to the totals shown.

7. Although Egypt is a net oil exporter, the loss of the Suez refineries to Israeli bombing has substantially reduced its capacity to manufacture refined products for domestic consumption. To help make up for this loss, the Soviet Union delivered 1.1 million tons of petroleum products to Egypt in 1970, about 70% more than in 1969. Moreover, the continued closure of the Suez Canal has thwarted Egyptian plans to process El Morgan crude at the Alexandria refinery. As a result, an agreement was worked out between Egypt and the Soviet Union under which Egypt made crude oil available to the USSR at the Gulf of Suez and the Soviet Union continued to deliver crude oil to Alexandria. Under this arrangement the Soviet Union delivered 1 million tons of crude oil to Alexandria in 1970, an increase of 100,000 tons over 1969, and received 2 million tons of crude oil for delivery to Cuba, Bulgaria, and East Germany.

8. Soviet exports to Japan increased by 700,000 tons to 2.9 million tons in 1970, 650,000 tons of the increase in the form of refined products. Crude oil

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exports still constituted more than half (55%) of Soviet oil exports to Japan. In spite of the 1970 increases, Soviet exports to Japan remained considerably below the level prevailing earlier in the 1960s. Soviet deliveries to other markets showed no significant change from 1969.

9. Soviet shipments of oil to Eastern Europe and other Communist countries in 1970 increased by 2.4 million tons to 50 million tons, which made up 53% of the oil exported by the Soviet Union (see Table 3). Eastern Europe received 82% of all the oil destined for Communist countries with most of the remaining 9 million tons going to Cuba, Yugoslavia, North Korea, and North Vietnam. The Soviet Union supplies 65% of Eastern Europe's oil demand and 85% if Romania, which does not import Soviet oil, is excluded.

Table 3

Soviet Oil Exports a/

	Million Metric Tons					
<u>Destination</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
<i>Total</i>	64.4	73.6	79.0	86.2	90.8	95.0
Free World	35.5	41.4	43.7	44.7	43.2	44.9
Communist countries	28.9	32.2	35.4	41.5	47.6	50.0
Of which:						
Eastern Europe	22.4	25.3	27.7	32.4	37.9	41.0

a. Because of rounding, components may not add to the totals shown.

Eastern Europe

10. Total exports of petroleum to the Free World from East European countries in 1970 amounted to almost 7.8 million tons, about the same as in 1969. These sales had an estimated total value of \$110 million and earned about \$55 million in hard currency for Eastern

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Europe, with barter and aid arrangements accounting for the remaining \$55 million. Romania provided half of the petroleum products exported from Eastern Europe to the Free World in 1970. Most of the other exports were made up of petroleum products derived from imported crude oil. Eastern Europe's estimated petroleum exports to the Free World during the last two years, by individual country, are shown in the accompanying tabulation.

Thousand Metric Tons							
<u>Year</u>	<u>Total Eastern Europe</u>	<u>Romania</u>	<u>Po-land</u>	<u>East Germany</u>	<u>Czecho-slovakia</u>	<u>Hun-gary</u>	<u>Bul-garia</u>
1970	7,770	3,890	1,130	1,110	750	710	180
1969	7,750	3,250	1,390	730	1,340	920	120

11. The substantial increase in East German petroleum exports to the Free World resulted from the growing oil trade between West Germany and East Germany. Under the intra-German trade agreement, West Germany is to supply East Germany with crude oil which is to be processed into refined products and then shipped to markets in West Berlin. Deliveries under this agreement amounted to 85,000 tons in 1968 and 288,000 tons in 1969. In 1970, about 700,000 tons were delivered under a new five-year agreement signed early in the year. This crude oil was shipped from Iran to Rotterdam and then transshipped to East Germany. The substantial decline in Czechoslovak exports of petroleum products to the Free World reflects a growing internal demand accompanied by only a slight increase in imports of crude oil. The capacity of Czechoslovak oil refineries was not increased during 1970, thus precluding any sizable increase in crude oil imports.

Oil Imports

12. In 1970 the Communist countries obtained about 8 million tons of oil from the Free World, almost double the amount obtained in 1969. Most of the petroleum obtained from the Free World was

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in the form of crude oil. Eastern Europe and the USSR imported less than 400,000 tons of refined products -- mostly lubricating oils and other specialty products from Western Europe. The Communist countries obtained all of their Free World supplies of crude oil from North Africa and the Middle East (see Table 4). Almost all of the crude oil imports were financed under barter arrangements and consequently involved no expenditure of hard currency by any of the Communist countries. The USSR uses Free World oil primarily to help satisfy export commitments to other Communist countries. Eastern Europe uses Free World oil to supplement imports from the Soviet Union and to keep domestic refineries operating at capacity. Production in East European countries that exceeds domestic demand can be sold to earn hard currency.

Table 4

Communist Imports of Crude Oil
from North Africa and the Middle East
1970

Thousand Metric Tons					
From	To				
	USSR	Bulgaria	East Germany	Romania	Total
Algeria	500 a/	400	--	--	900
Egypt	2,000 b/	300	900	--	3,200
Iran	--	200	700 c/	2,200	3,100
Libya	--	--	--	60	60
Saudi Arabia	--	--	--	40	40
Syria	--	200	--	200	400
Unidentified	--	100	--	--	100
Total	2,500	1,200	1,600	2,500	7,800

a. Delivered to Bulgaria on Soviet account.

b. Delivered on Soviet account about 600,000 tons to Cuba and the remainder to Bulgaria and East Germany.

c. Transshipped from Rotterdam.

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Soviet Union

13. The Soviet Union acquired a total of about 2.5 million tons of crude oil from Free World sources in 1970, all from Algeria and Egypt. None of this oil, however, was delivered to the Soviet Union. Instead, the USSR used the petroleum to help satisfy export commitments to other Communist countries, among them Bulgaria, Cuba, and East Germany. Small quantities may also have been delivered to certain Free World countries, including Spain, Morocco, and Ghana. For the foreseeable future the USSR will divert oil procured from the Free World to help meet its export commitments rather than use it domestically.

Eastern Europe

14. East European countries imported 5.3 million tons of crude oil directly from the Middle East and North Africa in 1970, about double the quantity imported in 1969. In addition, they received approximately another 1.9 million tons from these sources on Soviet account and imported about 300,000 tons of refined products from Western Europe. As in 1969, only three East European countries -- Romania, East Germany, and Bulgaria -- imported crude oil from the Free World. Romania requires increasing quantities of Free World crude oil because domestic refining capacity has been increasing while indigenous crude production has been leveling off. About half of East Germany's imports of Free World crude is used to service agreements under which it provides petroleum products to West Berlin; the remainder is used to supplement Soviet supplies needed to satisfy increasing domestic demand. Bulgarian domestic production of crude oil is declining at the same time that refining capacity is increasing to keep pace with an increasing domestic demand for refined products.

Prospects

15. The status of the Communist countries as a net exporter of petroleum to the Free World will continue to be eroded in the coming years. For the

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last two years the growth in oil consumption has outpaced the growth in production in Communist countries. There has been no indication that the Communist countries intend to increase the rate of growth in production or decrease the rate of growth in consumption in an effort to change this trend. The quantity of oil delivered by Communist countries to Free World countries annually over the next few years will probably continue at about the average annual rate of the last few years. However, a constant quantity of petroleum exports to the Free World should result in a considerable increase in Communist oil revenues and particularly in hard currency earnings because of the substantial increases in world oil prices that occurred in 1970 and early 1971.

16. Although the quantity of oil exported by Communist countries probably will remain near current levels for the next few years, many recent trade agreements between these countries and the major oil producing countries in North Africa and the Middle East lay the groundwork for significant increases in Communist oil imports. Total Communist need for Free World oil will probably remain small through 1975, but individual countries, such as Bulgaria and Romania, will probably obtain larger shares of their oil supply from Free World sources.

Soviet Union

17. The USSR will probably receive about 3 million tons of oil from Egypt, Syria, and Algeria in 1971. Moscow has contracted to receive oil from Algeria and Syria through 1975, and the USSR will begin receiving oil from Iraq in 1972 in repayment for credits extended under a 1969 aid agreement. The arrangement between the USSR and Egypt by which crude oil is delivered to Alexandria in exchange for Egypt's El Morgan crude oil in the Gulf of Suez probably will continue until the Suez Canal is re-opened.

18. The USSR has shown no disposition to use imported crude oil to satisfy domestic demand. Crude oil procured by the USSR will probably continue to be used to help satisfy Soviet export commitments to other Communist countries and possibly to some Free World consumers. Moscow

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evidently finds these arrangements economically and politically advantageous. All of this oil will be obtained through barter deals with the producing countries or as repayments for credits drawn. Petroleum obtained on such a basis frees an equivalent amount of Soviet oil for export to hard currency customers. From a political standpoint, Soviet imports of Free World petroleum permit the Soviet Union to maintain its role as a stable and dominant supplier to Eastern Europe. Moreover, by providing a market for emerging national oil companies in less developed oil producing countries, the USSR is able to improve relations with those governments. Present or prospective Soviet imports are not large enough, however, to suggest an important Soviet role in the Free World petroleum market through 1975.

Eastern Europe

19. East European oil imports from the Free World will increase substantially in 1971 and will continue to grow thereafter. Crude oil imports will increase from the 1970 level of 5.3 million tons to about 8 million tons in 1971. Romania will continue to be the principal East European importer of Free World oil at least through 1975. Other countries in the area, however, will shift an increasing share of their growing crude oil import requirements from the USSR to the Free World.

20. Romania will import about 3 million tons of crude oil from the Free World in 1971. Romanian production of crude oil has leveled off in recent years while domestic consumption has increased. To provide for this growing consumption and to continue to earn hard currency through the export of oil products to the Free World, Romania will undoubtedly continue to import Free World crude oil whenever possible on a barter basis. Romania will probably maintain its imports of Iranian oil at about 2 million tons in 1971 and will continue to use the Trans-Israeli pipeline to minimize hard currency outlays for shipping. The barter agreement between Romania and Saudi Arabia which has been stalled since 1968 may be revived this year. Saudi Arabia has arranged for the use of Romanian credits in constructing a refinery in Lebanon. Moreover, the Arabian American Oil Company has offered to make oil available from its Trans-Arabian pipeline outlet on the Mediterranean

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to Saudi Arabia for sale to Romania. About 600,000 tons have been offered in 1971, and about 1 million tons annually thereafter until Romanian credits are repaid. Romania is also expected to receive small quantities of oil from Libya, Egypt, and possibly Venezuela in 1971.

21. East Germany will probably import about 2 million tons of Free World crude oil in 1971. More than half will come from Egypt and the remainder from Iran via the Netherlands as part of the inter-zonal trade arrangement with West Germany. East Germany's imports should increase substantially when payments in oil from Iraq's North Rumaila field begin against East Germany's \$84 million credit to Iraq.

22. Bulgaria is expected to import about 1.5 million tons of crude oil directly from Free World countries in 1971. Most will be obtained from Algeria and Egypt with small amounts coming from Syria, Iran, and Libya. In addition, the USSR will continue to provide Bulgaria with Algerian and Egyptian oil on Soviet account.

23. Hungary normally satisfies its small petroleum requirements from the USSR and from domestic sources. However, in a departure from the normal procedure, Hungary has contracted to import about 500,000 tons of crude oil from Egypt and Syria in 1971. Hungary also has trade and credit arrangements with Iran and Iraq which should provide additional sources of crude oil in future years.

24. Czechoslovakia will acquire petroleum from the Free World in 1971 as a result of a quadripartite agreement with Iraq, Italy, and the USSR. Under this agreement, Czechoslovakia is to sell Iraqi crude to Italy. In exchange for the hard currency generated by this sale, the USSR will make an equivalent amount of oil available to Czechoslovakia through the Friendship crude oil pipeline. This arrangement helps solve the transport problem caused by Czechoslovakia's landlocked position while at the same time the USSR, in effect, receives some convertible foreign exchange for its oil deliveries to Czechoslovakia. This deal indicates the growing flexibility of Communist oil transactions. As a result of the expansion of the Friendship crude oil pipeline from the USSR to Eastern Europe -- its capacity will be doubled by 1974-75 -- the arrangement between Czechoslovakia

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and the USSR could be duplicated by other East European countries. This would permit both full utilization of the line and continued substantial earnings of hard currency from Soviet oil exports.

25. Poland has not been as active as other East European countries in seeking supplemental crude oil supplies. In 1971, Poland has contracted to receive about 250,000 tons from Egypt.

Conclusions

26. Communist petroleum exports to the Free World have remained rather stable in recent years. The quantity exported in 1970 reached 53 million tons -- 2 million tons more than in 1969, but was almost the same as the quantity exported in 1968. Almost all of the increase in 1970 was attributable to increased exports by the USSR. The Soviet increase in turn was made possible by the use of Free World oil to help satisfy the demand made by other Communist countries upon the USSR. Communist petroleum imports from the Free World increased to about 8 million tons -- almost double the quantity imported in 1969. Nearly 6 million tons of Free World petroleum were imported directly by East European countries.

27. The recent trend of a relatively stable quantity of petroleum exports coupled with increasing Communist imports will continue at least through 1975. Eastern Europe will obtain additional Free World oil primarily to satisfy its growing domestic demand. The USSR on the other hand, will use Free World oil to help maintain export commitments. Many recent trade and aid agreements concluded with Middle Eastern and African oil producing countries will provide the USSR and Eastern Europe with increasing quantities of Free World petroleum without an expenditure of hard currency. On the other hand, the amount of hard currency that the Communist countries can earn through petroleum sales to the Free World should increase considerably because of the recent increases in the world price of oil.

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APPENDIX

Communist Exports of Petroleum to the Free World ^{a/}
1970

Thousand Metric Tons						
Destination ^{b/}	Crude Oil from the USSR	Petroleum Products			Total Petroleum	Percent of Recipient's Demand
		From the USSR	From the East European Communist Countries	Total		
<i>Total</i>	<i>25,850</i>	<i>19,040</i>	<i>7,770</i>	<i>26,810</i>	<i>52,660</i>	<i>6 c/</i>
Western Europe	<u>21,550</u>	<u>14,365</u>	<u>5,980</u>	<u>20,345</u>	<u>41,895</u>	7
Austria	900	50	1,700	1,750	2,650	29
Belgium	--	800	150	950	950	3
Denmark	--	575	250	825	825	4
Finland	6,700	1,300	300	1,600	8,300	76
France	1,450	1,150	450	1,600	3,050	3
Iceland	--	400	--	400	400	73
Ireland	--	200	--	200	200	5
Italy	9,200	1,400	600 ^{d/}	2,000	11,200	12
Netherlands	--	400	--	400	400	1
Norway	--	450	100	550	550	7
Spain	--	100	--	100	100	Negl.
Sweden	--	4,800	450	5,250	5,250	17
Switzerland	--	300	250	550	550	4
United Kingdom	--	40	--	40	40	Negl.
West Germany	3,300	2,400	1,730	4,130	7,430	5
Middle East	<u>1,650</u>	<u>2,300</u>	<u>1,320</u>	<u>3,620</u>	<u>5,270</u>	21
Cyprus	--	150	20	170	170	26
Egypt	1,000	1,100	600 ^{e/}	1,700	2,700	36
Greece	650	750	400	1,150	1,800	25
Syria	--	100	300	400	400	21
Turkey	--	200	--	200	200	3
Africa	<u>1,050</u>	<u>245</u>	<u>0</u>	<u>245</u>	<u>1,295</u>	40
Ghana	400	--	--	--	400	52
Guinea	--	70	--	70	70	23
Morocco	650	75	--	75	725	39
Senegal	--	40	--	40	40	16
Somalia	--	60	--	60	60	71

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APPENDIX

Communist Exports of Petroleum to the Free World ^{a/}
1970
 (Continued)

Destination ^{b/}	Thousand Metric Tons					Percent of Recipient's Demand
	Crude Oil from the USSR	Petroleum Products			Total Petroleum	
		From the USSR	From the East European Communist Countries	Total		
Asia	<u>1,600</u>	<u>1,930</u>	<u>70</u>	<u>2,000</u>	<u>3,600</u>	2
Afghanistan	--	130	--	130	130	5
India	--	500	50	550	550	3
Japan	1,600	1,300	20	1,320	2,920	2
North America	<u>0</u>	<u>200</u>	<u>400</u>	<u>600</u>	<u>600</u>	Negl.
Canada	--	30	--	30	30	Negl.
United States	--	170	400	570	570	Negl.

a. Preliminary estimates derived primarily from information on tanker movements and from Free World import data.

b. indicates a less developed country; all others are developed countries.

c. Percent of demand for countries listed, excluding the United States. Oil from Communist countries represented about 4% of total demand in the Free World, excluding the United States.

d. Including 50,000 tons of crude oil delivered from Bulgaria to Italy.

e. Including 40,000 tons of crude oil delivered from Bulgaria to Egypt.

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